



# Surface Transforms Plc

Registered number 03769702

## Annual Report and Financial Statements

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for the year ended 31 May 2017



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## Highlights

- Trading and cash in line with June 2017 trading update
- Revenues decreased by £660k to £702k (2016: £1,362k) due to a deferral to the 2017-18 financial year as a result of a conscious decision to switch capacity from revenue generating product to test parts during the factory move
- Knowsley factory move now fully completed
- Successful equity placing and open offer raised gross proceeds of £3.677m to further the Company's expansion plans post the financial year-end. Except for the ceramic furnaces, all new capital equipment has been ordered and is being progressively commissioned for increased production capacity
- Gross margin percentage increased to 61.0% (2016: 51.6%)
- LBITDA (including tax credits and excluding share based payments) loss of £1,944k (2016: loss of £640k)
- Increased research costs of £1,916k (2016: £1,254k)
- Loss before taxation of £2,528k (2016: loss of £1,154k)
- Loss per share at 2.41p (2016: loss per share of 1.44p)
- Cash used in operating activities increased by 34.2% to £1,220k (2016: £909k)
- Cash position as at 31 May 2017 of £1,532k (2016: £4,777k)
- Nominated as the tier 2 brake disc supplier on the Aston Martin Valkyrie
- Continuing progress with other automotive Original Equipment Manufacturers (OEMs) albeit with certain programme delays, outside the Company's control
- Continuing delay on the formal sign off in the aerospace contract despite completion of testing

## Chairman's Statement

The Company continues to progress its transformation from an early stage developer to a mainstream, profitable, volume automotive components supplier. A comprehensive update on financial and operational progress was provided in the Company's recent fundraising circular to shareholders dated 6 July 2017 and this remains unchanged; solid progress was made operationally in the year, including the contract win of the Aston Martin Valkyrie brake disc, a £1m programme, and the Company's first mainstream contract. Whilst progress was made on some of the other target automotive OEM contracts, there are programme delays, outside the Company's control. In addition, the biggest short-term impact is the delay in the aerospace contract, originally planned to commence in January 2018 with sales of £1.5m per year.

As a result, following the financial year end, the Company successfully sought further funding, raising £3.677m, (before fees) which will provide sufficient cash to properly exploit the Company's current commercial opportunities, both for capital expenditure and general working capital purposes. The Directors wish to thank the shareholders for their support in this fund raising.

### Operational progress

**Knowsley facility:** The previously notified problem with the gas supply has been resolved although this distraction did result in certain production delays. However, the Company is now in full production, on all processes, at Knowsley. The new site, (five times the size of the old site) has been designed using "lean manufacturing" principles and is now, after initial start-up problems, performing better than the old site. The Company fully vacated its old Ellesmere Port facility on 30 April 2017.

The current capacity of the new site is sales of £4m per annum in two cells: Small Volume Automotive Production providing £2.5m and Aerospace providing £1.5m. When the current investment programme is complete, total capacity is expected to be £16m per annum, although given the site's floor space £50m sales per annum could be achieved, albeit this would require additional capital expenditure. This £50m sales target reflects the pipeline of the current customer discussions.

**VDA 6.3:** All German customers require this quality standard. At the Company's request, OEM 3 completed a "potential survey analysis" in the year aimed at evaluating progress and calibrating the Company's perception on the closeout actions needed before final approval of VDA 6.3. The survey achieved this objective and the customer confirmed Surface Transforms is close to being approved. An action list with a relatively small number of items has been agreed and management expect to address these, prior to the next audit in November 2018, this date being a slight delay from previously notified September- reflecting diary availability from the customers audit team.

**New capital equipment:** With the exception of the ceramic furnaces the new equipment is on order at prices broadly in line with budget. Delivery of the new equipment started in June 2017, with further furnace deliveries expected over the next six months. This represents a three months delay from the original plan but does not impact any internal or customer critical path milestones.

**Production cost reductions:** The Phase One cost reductions were always in two parts, those associated with detailed engineering changes and those associated with the new equipment. The former is now almost complete; the latter are on target for completion as the new equipment is delivered.

Additionally, further cost reductions have been identified from both the establishment of a Combined Heat and Power Plant on the new site and increased purchasing power on gas supplies.

**Grants and loans:** At 31 May 2017, the Company had expended £2.3m of its capital expenditure and thus triggered the final release clause on the £500k grant and loans. £382k has now been received in the financial year, a further £78k was received in June and the outstanding balance of £40k is expected before the closing receipt date of November 2017.

### Progress with potential OEM customers

**German OEM 3:** This customer is now expected to introduce the Company's products earlier than anticipated – now in 2018 – albeit on a limited edition racetrack only car. Contractual details are in final discussion, and one relatively straightforward regulatory approval test remains to be completed (note: the Company has already passed this particular test on other cars for OEM 3, as well as many other customers). Revenues from this car are expected to be circa £500k during a race season – that typically runs from March to October. The customer is able to accelerate this introduction because the product requirements are different for track cars than road cars. The Board considers this decision further validates the customer's confidence in the core Surface Transforms product.

## Chairman's Statement

In respect to the road car, the Company and the customer are now planning a revised introduction route to the previously announced mainstream, volume, vehicle range. The vehicle range is unchanged but the introduction variant is different to and later than previously announced. This has the effect of giving the Company a further six months to complete and replicate the outstanding product testing which moves volume revenues (excluding race car) back twelve months. However, as this is solely a different entry point to the same model range it does not impact medium term sales.

Testing to meet the product requirements is ongoing and the Company believes it can meet the customer's requirements in the near future. However, the Company and customer have agreed that Surface Transforms needs to replicate these results and this could take until the end of the calendar year – consistent with the new road car nomination date.

**British OEM 2 and German OEM 4:** OEMs 2, 3 and 4 are sister companies in the same group. German OEM 3 has re-iterated that their testing programme covers the requirements of other group companies. Completion of product testing with OEM 3 will therefore complete testing for OEMs 2 and 4.

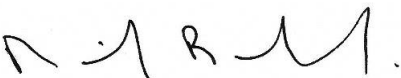
**German OEM 5:** This is a different German automotive group. The customer's testing is going well; they have slightly different test requirements to German OEM 3 although the Company believes that it can also meet these. The customer has re-iterated the target model with a 2019 start of production date with mature run rate volumes of £2.5m per year.

**British OEM 6:** In the year, the Company won an order with Aston Martin – now described as OEM 6. Engineering work on the Aston Martin order continues to plan and the launch date of January 2019 is unchanged with development revenues for the Company expected before that date.

**British OEM 1:** Delay with the first model for OEM 1 is understood to be due to challenges they are having integrating their brake system and unrelated to the discs. The customer's solution appears to have been to ask the Company's competitor for a holistic caliper and disc system offering. As a result, this latter project has been deleted from the Company's internal forecasts and replaced by Aston Martin. The net effect of these changes is minimal. The Company continues to include the second model for OEM 1 in its planning as it will be offering a joint caliper, disc and pad solution to the OEM, replicating the success of Aston Martin.

**Aerospace:** As previously reported, testing has been completed and the only outstanding issue is formal sign off by US Naval Air Command and the aeroplane manufacturer. However, this "sign off" continues to be delayed, for reasons the Board now knows to be the result of the aeroplane customer wanting to "package" a number of changes at the same time. The Company is in continuing discussions with its landing gear customer with regard to the financial implications of this airframe delay, as the launch date was a fundamental feature of the original commercial agreement. These discussions include continuance of development income if production income is delayed for reasons within the customer's responsibility. The discussions are constructive but, as yet, without resolution.

**Impact on the business plan in future years:** The new race track business is a welcome short term boost to revenues but as previously announced the uncertainty over aerospace revenues and the later starting date for the OEM 3 road car could potentially delay total planned revenues by a year, each year, for the period to financial year 2020/21 returning to the previous notified run rate thereafter.



**David Bundred**  
Chairman

18 September 2017

# Strategic Report

## Operational review and principal activity

Surface Transforms is a UK based developer and manufacturer of carbon ceramic products for the brakes market. In these industries our products are lightweight, extremely durable and highly refined. They offer better heat dissipation and material strength; resulting in superior wear life, improved brake pad wear life and weight reduction compared to our competitor's carbon ceramic products in the automotive industry and for the aerospace industry they offer weight reduction, improved brake performance and superior wear life.

Our strategy is to be a profitable, series production supplier of carbon ceramic brake discs to the large volume original equipment manufacturer (OEM) automotive market and to niche military and small commercial aircraft brake market. To achieve this, we work closely with Tier 1 suppliers and directly with OEMs to meet their requirements on product, price, quality and security of supply.

In addition, we supply carbon ceramic brake discs to small volume vehicle manufacturing and retrofit high performance kits for performance cars.

The key features of our business model are as follows:

- Engineer and manufacture carbon ceramic brake products, which deliver high technical performance for the luxury and performance brakes markets, which we estimate to be, ultimately, a £2 billion per annum market
- Be a 'Quality Company' with a culture which lives and breathes its world class business processes and management systems. We surpass the automotive and aerospace quality standards (TS16949 and AS9100); and through continuous improvement, work to comply with the German automotive industry quality standard (VDA 6.3)
- Operate lean manufacturing processes, enabling the Company to have a highly competitive low cost manufacturing route making our products price competitive with good margins
- Support and manage our supply chain which is then capable of delivering to our customers' requirements on product, price, quality and security of supply
- Build manufacturing capacity. Initially to 20,000 discs/annum (equivalent to circa £16 million revenue) which is further expandable, with capital expenditure, to 100,000 discs/annum.

Succeeding in these activities generates highly desirable, world leading quality products, which are price competitive and profitable to the business.

Furthermore, our products and processes are protected by a high level of intellectual property through a combination of patents and mainly Company process knowhow.

### **Delivering our objectives:**

#### **Niche vehicle and Retrofit**

Niche vehicle and retrofit customers make up a relatively small addressable market of circa £1m-£2m per annum. Sales in these markets continue. Existing niche vehicle customers have been maintained and we saw growth with new customers added, principally Singer vehicles and Next EV.

As previously stated we do not plan to allocate engineering time to generating new kits as these resources are focused on supporting the automotive game changing programmes; however, we continue to sell existing kits for Porsche, Nissan GTR, Aston Martin and Ferrari.

In terms of sales during the year both niche vehicle manufacturers and retrofit distributors finished the year with sales backlogs. The cause of this backlog was due to manufacturing capacity being prioritised during the factory move to support the large, strategically important OEM programmes in the luxury and performance automotive brakes market. With the factory move complete and the new factory's small volume production (SVP) cell fully operational these backlogs will be cleared during 2017. The SVP's automotive capacity is £2.5m and therefore is now capable of supporting niche vehicle manufacturers and retrofit customer demands going forward.

# Strategic Report

## Automotive OEMs

In addition to the niche customers we have made significant progress on large automotive OEM objectives:

- **Product** – we continue to support all our target OEM programmes. Product design work has progressed well with OEM 6 (Aston Martin) and product testing with OEM 5 has been very encouraging. A significant amount of work has been completed to progress the product in terms of the environmental requirements of German OEM 3. A test method and test house has been verified to accelerate the testing. The test is a lengthy, destructive test and we have been able to define and understand the failure mechanism during the test. This work has enabled a number of product enhancements to be made and a full suite of statistical results is expected to be available by the end of the calendar year.
- **Quality** – the Company was successful in re-certifying the new site to TS 16949 and AS 9100 standards, the certifications could not be simply "carried over" from the previous Ellesmere Port site. Although these certifications are important; our efforts are focused on complying with the German automotive industry quality standard (VDA 6.3) which allows the Company to attain high levels of process control and operational efficiency. These are key capabilities to managing series volume supply risks and ensure the Company is competitive in the market place.
- **Supply chain security** – as with any manufacturing process we are only as good as our supply chain. Our analysis of the supply chain identified a number of weaknesses that we have been addressing during the year. We are pleased with progress made and in particular believe the major supply chain risks identified will be resolved during 2017.
- **Manufacturing capability, capacity and cost** – our new factory has significantly enhanced our manufacturing capabilities with further additional improvement being implemented. Our capacity expansion plans continue broadly as planned. The programme to reduce the cost to manufacture as mentioned in the chairman's statement will be completed with the introduction of additional capacity and although there have also been cost increases arising from currency movements on imported materials and sub contracted processes we expect these will be more than offset as processes are brought in house.

## Aircraft brakes

Despite the delays we continue to work with an international aircraft brake system supplier on an exclusive basis and are supporting our customer's approval processes for the US military programme. Discussions around mitigating delays and support to the supply chain during the approval process are on going.

There has been large investment in engineering work during the year to support the progress made on product refinement, quality, supply chain and capacity improvement. The demand for this work is clear from our game changing programmes and will be continued during the coming year.

## Financial review

In the year ended 31 May 2017, revenues were £700k (2016: £1.362k). This reduction in revenue did not reflect underlying order intake as during the period of limited capacity (the factory move) management took the decision to switch saleable parts into test parts for the extended OEM 3 test programme. These sales have not been lost, total firm orders and customer commitments are for sales of £889k in the new financial year (2016: £427k), the highest visibility of future sales the Company has ever had.

Gross margin improved during the year to 61.0% (2016: 51.6%) due to an improved sales mix of more products at a higher gross margin compared to prior year.

Research and development costs increased to £1.916m (2016: £1.254m) as a result of the increased testing on the OEM 3 programme.

Losses after taxation increased by 156.1% to £2,172k (2016: £848k) reflecting the reduced gross profit of £275k on the reduction in sales, increased R&D costs of £662k and increased general overheads of £319k, the latter mostly reflecting both the on-going additional costs of the larger new site and £72k of non – recurring costs from the move which were not capitalised.

## Strategic Report

At 31 May 2017, inventory was £507k (2016: £570k). This modest decrease reflects the initial unwinding of the 31 May 2016 inventory increase in advance of the factory move, but, in the opinion of the Directors, is still too high relative to current sales.

Net cash used in operating activities increased by 34.2% to £1,220k from £909k in the prior year, mainly due to increased losses after tax, offset by R&D tax credit received of £356k.

The Company had a cash balance of £1,532k at 31 May 2017 (2016: £4,777k). In addition, an expected R&D tax credit of over £450k (receivable in December 2017) and claimed but not yet received grants of £118k (of which £80k was received in June) should be due to the Company.

Except for the ceramic furnaces, all the new equipment is on order, with deposits made at prices broadly in line with budget.

The Company is pleased to report that it raised £3.677m (before fees) in an equity fund raising post the year-end and the strong support shown by existing shareholders.

Loss per share was 2.41 pence (2016: loss 1.44 pence).

### Key performance indicators

The Directors continue to monitor the business internally with a number of performance indicators: order intake, sales output, profitability, supply chain capacity, health and safety, quality and manufacturing cost of automotive discs. A set of business milestones is also updated and reviewed as part of the monthly board meeting.

The Company produces an annual business plan and full monthly forecasts detailing sales, profitability and cash flow to help monitor business performance going forward. These are detailed in the Financial Review above.

Management meetings are held on a weekly basis, all senior managers attend and discuss production, engineering, financial and quality issues.

### Risks and uncertainties

As in previous years the principal risk faced by the Company is considered to be the speed at which our customers and potential customers adopt the new carbon ceramic product technology. Indications are that there is a strengthening desire from our strategic aerospace partner and from a number of volume automotive OEMs to incorporate the Company's product in their respective platforms. This risk is constantly assessed by regular customer review meetings.

The risks associated with bringing the newly purchased furnaces into production are being managed by both a project team that has the experience and skills to deliver this type of project as well as pre-delivery testing at the supplier's premises. Regular weekly and monthly reviews are held and the project's progress is communicated across the entire company on a regular basis.

In terms of uncertainties, although sales are expected to be flat in the retrofit market, product sales are still expected to grow, modestly in the niche vehicle market. This uncertainty is constantly assessed by regular customer meetings and monitoring the level of enquiries and orders for both the Company's products and industry wide.

In addition, the Company faces the continued uncertainty created by the global economic and political climate. This changing landscape is constantly assessed and reviewed by both the management team and the board of directors.

In summary, the Company has seen significant progress in its automotive 'game changing' projects and is progressing well with its expansion plans. Further progress on automotive 'game changers' is expected during the remainder of 2017 and 2018. Please refer to note 21 for information on financial risk management and exposure.

### Directors and staff

We would like to thank all our colleagues, management and staff alike, for their hard work and dedication over the past year.



## Strategic Report

### Outlook

The Company expects sales in the financial year 2017-18 to be greater than that of 2016-17 as the numbers will include the approximately £400k of sales switched from last year into the current financial year. Additionally, the Directors expect to see development income from the Aston Martin Valkyrie contract and continuing modest growth in the near OEM market.

Development costs will continue at the current higher level.

Thereafter the Board is confident of delivering substantial sales growth and expects to make further announcements during the year. As noted above when the current capacity expansion programme is complete, in 2018, the Company will have capacity for 20,000 discs facilitating overall sales capacity of approximately £16m.

The Company's board and management is looking forward to the challenges and opportunities of the next years with confidence and excitement.



**David Bundred**  
Chairman



**Kevin Johnson**  
Chief Executive

18 September 2017

## Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 May 2017.

### Directors and Directors' interests

The Directors who held office during the year and to the date of signature of the financial statements were as follows:

D Bundred\* (Chairman)  
 Dr K Johnson (Chief Executive)  
 K D'Silva\*  
 RD Gledhill\*

\*denotes non-executive Director.

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	<b>% of issued share capital at end of year</b>	<b>Number of £0.01 ordinary shares Interest at end of year</b>	<b>Interest at start of year</b>
K D'Silva	1.07%	970,818	920,818
RD Gledhill	13.09%	11,818,853	11,818,853
Dr K Johnson	0.14%	124,000	124,000
D Bundred	0.81%	733,341	733,341
	15.11%		

According to the register of Directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the Directors or their immediate families, or exercised by them during the financial year, except as disclosed in the report on Directors' remuneration on pages 12 and 13.

The Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### Substantial shareholders

In addition to the Directors' interests noted above, the Directors are aware of the following who were interested in 3% or more of the Company's equity as at 31 May 2017:

<b>Registered holding</b>	<b>Number of ordinary shares</b>	<b>% of issued share capital</b>
Hargreave Hale	14,295,281	15.83%
Unicorn Asset Management	9,375,000	10.38%
Barclays Wealth	3,481,313	3.85%
Hargreaves Lansdown Asset Management	2,831,176	3.13%
Maunby Investment Manager	2,797,211	3.10%

## Directors' Report

### Corporate governance

The Directors recognise the importance of sound corporate governance and confirm that although compliance with the UK Corporate Governance Code is not compulsory for AIM listed companies, the Company is following the guidelines of the QCA Corporate Governance Code (as devised by the QCA in consultation with a number of significant institutional small company investors) to the extent appropriate and practical for a Company of its nature and size.

The Board has appointed an Audit Committee whose primary role is to review the Company's interim and annual financial statements before submission to the Board for approval. The Board has also appointed a Remuneration Committee, which is responsible for reviewing executive remuneration and performance. The Remuneration Committee is made up of three non-executive Directors, David Bundred, Kevin D'Silva and Richard Gledhill. The Audit Committee is made up of the same three non-executive Directors. Details of the Remuneration Committee are disclosed in the report on Directors' remuneration on pages 12 and 13.

### Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. The Company incurred a net loss of £2,172k during the year however the Directors are satisfied, based on detailed cash flow projections, noting the post balance sheet fund raising of £3.677m and after the consideration of reasonable sensitivities, that sufficient cash is available to meet the Company's needs as they fall due for the foreseeable future and for at least 12 months from the date of signing the accounts. The detailed cash flow assumptions are based on the Company's annual budget, prepared and approved by the Board, which reflects a number of key assumptions including; revenue growth, underpinned by current pipeline; customer compliance with payment terms; other receipts of a value and timing consistent with previous years. Revenues are expected to continue in the forthcoming year.

Further information regarding the Company's business activities, together with the factors likely to affect future development, performance and position are set out in the Chairman's statement on pages 3 and 4 and the Strategic report on pages 5 to 8. In addition, note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Principal activity

The principal activity of the Company is to design, manufacture and sell carbon fibre components. The majority of the Company's staff are employed in research activities which are concentrated on the ongoing identification of new products and applications for carbon fibre reinforced ceramic friction and non-friction materials.

### Result for the year and proposed dividend

The loss for the year after taxation amounted to £2,172k (2016: £848k). The Directors do not recommend the payment of a dividend (2016: £nil).

### Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.



## Directors' Report

### Strategic report

The information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the separate Strategic Report in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

### Post balance sheet event

On 9 August 2017, post balance sheet date, the Company announced that it had been successful in raising £3.677m gross of expenses through issuing 23,725,481 shares at a price of 15.5p.

### Auditor

RSM UK Audit LLP has indicated its willingness to continue in office. Ordinary resolutions to re-appoint RSM UK Audit LLP as auditor and to authorise the directors to agree their audit fee, will be proposed at the forthcoming annual general meeting.

By order of the board

A handwritten signature in black ink, appearing to read 'D Bundred', written over a horizontal line.

**D Bundred**  
Chairman

18 September 2017

Image Business Park  
Acornfield Road  
Liverpool L33 7UF

## Report on Directors' Remuneration

### Policy on executive Directors' remuneration

The Remuneration Committee comprises of David Bundred, Kevin D'Silva and Richard Gledhill.

The Remuneration Committee is responsible for reviewing and determining the Company's policy on executive remuneration (including the grant of options under the Share Option Scheme). Executive remuneration packages are designed to ensure the Company's executive Directors and senior executives are fairly rewarded for their individual contributions to the Company.

### Fees for non-executive Directors

The fees for non-executive Directors are determined by the Board. The non-executive Directors are not involved in the decisions about their own remuneration.

### Directors' remuneration

Set out below is a summary of the fees and emoluments received by all Directors for the year or, where applicable, period of office:

	Salary £	Fees £	2017 £	Salary £	Fees £	2016 £
<b>Executive directors</b>						
Dr K Johnson	163,183	–	<b>163,183</b>	104,764	–	104,764
	163,183	–	<b>163,183</b>	104,764	–	104,764
<b>Non-executive directors</b>						
K D'Silva	18,401	–	<b>18,401</b>	16,550	–	16,550
RD Gledhill	14,282	4,500	<b>18,782</b>	–	18,000	18,000
D Bundred	7,875	19,125	<b>27,000</b>	–	27,000	27,000
	40,558	23,625	<b>64,183</b>	16,550	45,000	61,550
	203,741	23,625	<b>227,366</b>	121,314	45,000	166,314

With the exception of Dr K Johnson, none of the Directors received pension contributions in respect of their office. In addition to the emoluments received, as stated above, Dr K Johnson received £9,424 (2016: £9,424) in respect of pension contributions.

### Directors' interests

Details of any contracts in which a Director has a material interest are disclosed in note 19.

None of the Directors received any remuneration or benefits under long term incentive schemes.

## Report on Directors' Remuneration

### Share options

The Company operates a share incentive scheme. All options are granted at the discretion of the Board. The number of options granted, date of grant, exercise price and exercise periods under the scheme are set out below.

None of the Directors exercised options during the year. Directors' options outstanding and the options which were granted, surrendered and expired during the year are as follows:

Director	Date of Grant	Holding on 1 June 2016	Exercised during the year	Number of Share options expired, waived or lapsed	Holding on 31 May 2017	Exercise Price	Exercise Period	Expiry Date
Dr K Johnson	18/04/2007	100,000	–	(100,000)	–	£0.21	18/04/10-18/04/17	18/04/17
Dr K Johnson	30/06/2008	288,000	–	–	<b>288,000</b>	£0.18	30/06/11-30/06/18	30/06/18
Dr K Johnson	22/09/2008	481,707	–	–	<b>481,707</b>	£0.19	22/09/11-22/09/18	22/09/18
Dr K Johnson	01/03/2010	345,000	–	–	<b>345,000</b>	£0.09	01/03/13-01/03/20	01/03/20
Dr K Johnson	15/02/2012	330,000	–	–	<b>330,000</b>	£0.12	15/02/15-15/02/22	15/02/22
KA D'Silva	17/04/2007	50,000	(50,000)	–	–	£0.21	17/04/10-17/04/17	17/04/17
D Bundred	17/10/2011	100,000	–	–	<b>100,000</b>	£0.09	17/10/14-17/10/21	17/10/21
D Bundred	17/10/2011	100,000	–	–	<b>100,000</b>	£0.09	17/10/14-17/10/21	17/10/21
D Bundred	17/10/2011	100,000	–	–	<b>100,000</b>	£0.09	17/10/14-17/10/21	17/10/21
Dr K Johnson	30/09/2016	600,000	–	–	<b>600,000</b>	£0.145	30/09/18-30/09/25	30/09/25
D Bundred	02/10/2016	250,000	–	–	<b>250,000</b>	£0.155	02/10/18-02/10/25	02/10/25
		2,744,707	(50,000)	(100,000)	<b>2,594,707</b>			

The market price of the shares at 31 May 2017 was 19.50 pence and during the year varied from 28.50 pence to 17.10 pence.

By order of the board



**D Bundred**  
Chairman

18 September 2017

Image Business Park  
Acornfield Road  
Liverpool L33 7UF

## Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements of the company in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and accounting estimates that are reasonable and prudent;
- (c) state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Surface Transforms Plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Independent Auditor's Report

to the members of Surface Transforms Plc

## Opinion on financial statements

We have audited the group and parent company financial statements ("the financial statements") on pages 17 to 38. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 May 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and, based on the work undertaken in the course of our audit, the Strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.





## Independent Auditor's Report

to the members of Surface Transforms Plc

### Respective responsibilities of Directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Graham Bond FCA** (Senior Statutory Auditor)  
for and on behalf of RSM UK Audit LLP, Statutory Auditor  
Chartered Accountants  
20 Chapel Street  
Liverpool L3 9AG

18 September 2017

## Statement of Total Comprehensive Income

for the year ended 31 May 2017

	Note	2017 £'000	2016 £'000
<b>Revenue</b>	3	702	1,362
Cost of sales		(274)	(659)
<b>Gross profit</b>		428	703
Administrative expenses:			
Before research and development costs		(1,045)	(654)
Research and development costs		(1,916)	(1,254)
Total administrative expenses		(2,961)	(1,908)
Other operating income		–	84
<b>Operating loss</b>	4	(2,533)	(1,121)
Financial income	6	5	2
Financial expenses	7	–	(35)
<b>Loss before tax</b>		(2,528)	(1,154)
Taxation	8	356	306
<b>Loss for the year after tax</b>	17	(2,172)	(848)
Other comprehensive income		–	–
<b>Total comprehensive loss for the year attributable to members</b>		(2,172)	(848)
<b>Loss per ordinary share</b>			
Basic and diluted	20	(2.41p)	(1.44p)

All amounts relate to continuing activities.

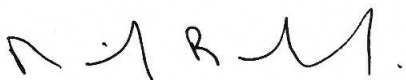
The notes on pages 21 to 38 form part of these financial statements.

## Statement of Financial Position

at 31 May 2017

	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
<b>Non-current assets</b>					
Property, plant and equipment	9	2,415		627	
Intangibles	10	136		–	
			2,551		627
<b>Current assets</b>					
Inventories	11	507		570	
Trade and other receivables	12	365		939	
Cash and cash equivalents		1,532		4,777	
			2,404		6,286
<b>Total assets</b>			<b>4,955</b>		<b>6,913</b>
<b>Current liabilities</b>					
Other interest bearing loans and borrowings	13	(12)		(4)	
Trade and other payables	14	(685)		(936)	
			(697)		(940)
<b>Non-current liabilities</b>					
Other interest bearing loans and borrowings	13	(352)		(16)	
<b>Total liabilities</b>			<b>(1,049)</b>		<b>(956)</b>
<b>Net assets</b>			<b>3,906</b>		<b>5,957</b>
<b>Equity</b>					
Share capital	16		903		901
Share premium	17		14,390		14,359
Capital reserve	17		464		464
Retained loss	17		(11,851)		(9,767)
<b>Total equity attributable to equity shareholders of the Company</b>			<b>3,906</b>		<b>5,957</b>

These financial statements were approved by the board of Directors on 18 September 2017 and were signed on its behalf by:



**D Bundred**  
Chairman



**Dr K Johnson**  
Director

Company Registered Number 03769702

The notes on pages 21 to 38 form part of these financial statements.

## Statement of Changes in Equity

for the year ended 31 May 2017

For the year to 31 May 2016

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance at 31 May 2015	532	9,186	464	(8,983)	1,199
<b>Comprehensive income for the year</b>					
Loss for the year	–	–	–	(848)	(848)
<b>Total comprehensive income for the year</b>	–	–	–	(848)	(848)
<b>Transactions with owners, recorded directly to equity</b>					
Shares issued in the year	369	5,531	–	–	5,900
Cost of issue written off to share premium	–	(358)	–	–	(358)
Equity settled share based payment transactions	–	–	–	64	64
<b>Total contributions by and distributions to the owners</b>	369	5,173	–	64	5,606
<b>Balance at 31 May 2016</b>	<b>901</b>	<b>14,359</b>	<b>464</b>	<b>(9,767)</b>	<b>5,957</b>

For the year to 31 May 2017

	Share capital £'000	Share premium account £'000	Capital reserve £'000	Retained loss £'000	Total £'000
Balance at 31 May 2016	901	14,359	464	(9,767)	5,957
<b>Comprehensive income for the year</b>					
Loss for the year	–	–	–	(2,172)	(2,172)
<b>Total comprehensive income for the year</b>	–	–	–	(2,172)	(2,172)
<b>Transactions with owners, recorded directly to equity</b>					
Shares issued in the year	2	31	–	–	33
Equity settled share based payments	–	–	–	88	88
<b>Total contributions by and distributions to the owners</b>	2	31	–	88	121
<b>Balance at 31 May 2017</b>	<b>903</b>	<b>14,390</b>	<b>464</b>	<b>(11,851)</b>	<b>3,906</b>

The notes on pages 21 to 38 form part of these financial statements.

## Statement of Cash Flows

for the year ended 31 May 2017

	2017 £'000	2016 £'000
<b>Cash flows from operating activities</b>		
Loss after tax for the year	(2,172)	(848)
Adjusted for:		
Profit on disposal of property plant and equipment	–	(16)
Depreciation and amortisation charge	145	111
Equity settled share-based payment expenses	88	64
Financial expense	–	35
Financial income	(5)	(2)
Taxation	(356)	(306)
	(2,300)	(962)
<b>Changes in working capital</b>		
Decrease/(increase) in inventories	63	(253)
Decrease/(increase) in trade and other receivables	579	(572)
Increase in trade and other payables	82	572
	(1,576)	(1,215)
Taxation received	356	306
<b>Net cash used in operating activities</b>	(1,220)	(909)
<b>Cash flows from investing activities</b>		
Acquisition of tangible and intangible assets	(2,075)	(265)
Proceeds from disposal of property, plant and equipment	27	26
<b>Net cash used in investing activities</b>	(2,048)	(239)
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital, net of expenses	33	5,142
Payment of finance lease liabilities	(10)	(11)
Interest paid	–	(35)
<b>Net cash generated from financing activities</b>	23	5,096
Net (decrease)/increase in cash and cash equivalents	(3,245)	3,948
Cash and cash equivalents at the beginning of the period	4,777	829
<b>Cash and cash equivalents at the end of the period</b>	1,532	4,777

The notes on pages 21 to 38 form part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 May 2017

## 1 Accounting policies

Surface Transforms Plc (the Company) incorporated and domiciled in the UK, the functional currency being sterling. The financial statements have been presented in sterling and rounded to the nearest thousand. The registered office of business is Image Business Park, Acornfield Road, Liverpool L33 7UF.

Surface Transforms is a UK-based developer and manufacturer of carbon ceramic products for the brakes market. Surface Transforms Plc has four dormant subsidiary companies that are excluded from these financial statements on the basis of materiality and that they do not currently trade. These are; ST Aerospace Ltd., ST Automotive Ceramic Ltd., ST Defence Ltd and ST Racing Ltd.

### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU.

The financial statements were approved by the board on 18 September 2017.

### Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

### Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate. The Company incurred a net loss of £2,172k during the year however the Directors are satisfied, based on detailed cash flow projections and after the consideration of reasonable sensitivities, that sufficient cash is available to meet the Company's needs as they fall due for the foreseeable future and at least 12 months from the date of signing the accounts. The detailed cash flow assumptions are based on the company's annual budget, prepared and approved by the Board, which reflects a number of key assumptions including; revenue growth, underpinned by current pipeline; customer compliance with payment terms; other receipts of a value and timing consistent with previous years.

Further information regarding the Company's business activities, together with the factors likely to affect future development, performance and position are set out in the Chairman's statement on pages 3 and 4 and the Strategic report on pages 5 to 8. In addition, note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. A view which was reinforced by the post year end fund raising of £3.677m before fees. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value is measured at grant date and spread over the period during which the employees and Directors become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

## Notes to the Financial Statements

### 1 Accounting policies continued

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Payments are accounted for as described below.

Depreciation is charged to the statement of total comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Plant and machinery 12.5% per annum
- Fixtures and fittings 33.3% per annum
- Leasehold improvements Over life of lease

Depreciation methods and useful lives are reviewed at each balance sheet date, residual values are deemed to be nil, no depreciation is charged on capital in progress.

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the balance sheet date. The gains or losses on retranslation are included in the income statement.

#### Leases

##### Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

##### Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### Government grants

Revenue grants are credited to deferred income and credited to the statement of total comprehensive income, deferred over the life of the asset to which it refers.

#### Post-retirement benefits

The Company operates a workplace pension scheme, and contributes to specific employees' personal pension schemes. The amount charged to the profit and loss account represents the contributions payable to employees personal pension schemes and workplace pensions during the accounting year.

#### Reserves

##### Share capital

Incremental costs directly attributable to the issue of Ordinary shares.

##### Share premium

This reserve records the amount above the nominal value received for shares issued, less transaction costs.

##### Capital reserve

This reserve records the nominal value of shares repurchased by the company.

## Notes to the Financial Statements

### 1 Accounting policies continued

#### Research and development expenditure

Expenditure on research activities is recognised in the statement of total comprehensive income as an expense as incurred. Expenditure arising from the Company's development is recognised only if all of the following conditions are met and an asset is created that can be identified:

- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the Company has the intention to complete the asset and the ability and intention to use or sell it;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Expenditure is only capitalised if there is a high probability by the customer for the programme to proceed to full scale commercial sales. This would normally be reflected in a firm purchase order and/or production contract, and a decision by their Board that the underlying car programme will go into production.

Where these criteria have not been achieved, development expenditure is recognised as an expense in the statement of total comprehensive income in the period in which it is incurred.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. In determining the cost of raw materials and consumables the purchase price is used. For work in progress, cost is taken as production cost.

#### Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes.

Deferred taxation is provided for in full at the tax rate which is expected to apply to the period when the deferred taxation is expected to be realised, including on tax losses carried forward.

Deferred taxation assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Research and development tax credits, which are typically received in the Autumn, are recognised on a cash received basis as a reduction in the current tax payable as this is when the tax credit is considered recoverable as the associated uncertainties have been eliminated.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits held on call with banks, and other short term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### Revenue

Revenue comprises income derived from the supply of carbon fibre materials during the course of the year. Revenue is recognised on transfer to the customer of significant risks and rewards of ownership, generally this will be when goods are despatched to the customer. Turnover excludes value added taxes.

#### Segmental reporting

The Board has reviewed the requirements of IFRS 8 "Operating Segments", including consideration of what results and information the Chief Executive (the Chief Operating Decision Maker) reviews regularly to assess performance and allocate resources, and concluded that all revenue falls under a single business segment.

The Directors consider the business does not have separate divisional segments as defined under IFRS 8. The Chief Executive assesses the commercial performance of the business based upon a single set of revenues, margins, operating costs and assets.



## Notes to the Financial Statements

### 1 Accounting policies continued

#### **Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

#### **Government grants**

The grants are recognised as income over the period necessary to match them with related costs i.e. over the life of the asset to which they refer.

#### **Critical accounting estimates and judgements**

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not already apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions which have a significant risk of causing a material adjustment to carrying amount of assets and liabilities within the next financial year are discussed below:

#### **Impairment of property, plant and equipment**

Property, plant and equipment are reviewed annually for impairment if events or changes in circumstances, such as changes in technology, indicate that the carrying amount of an asset is not recoverable. The directors judge that no impairment is required as the Company is still at the pre commercialisation phase of the technology exploitation.

#### **Research and development expenditure**

The Board considers the definitions of research and development costs as outlined in IAS 38: Intangible Assets when determining the correct treatment of costs incurred. Where such expenditure is technically and commercially feasible, the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset it is treated as development expenditure and capitalised on the statement of financial position.

In considering whether an item of expenditure meets these criteria, the Board applies judgement. During the year all such expenditure has been expensed to the statement of total comprehensive income on the grounds that it relates to feasibility studies to identify new applications for the technology or methods of improving the production process. As the technical feasibility of this work is unknown at the time the costs are incurred, none meet the criteria for capitalisation during the current or previous year.

#### **Deferred tax**

Management judgement is required to determine the amount of tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further information regarding the level of unrecognised deferred tax is included in note 15.

#### **Going concern**

Management judgement is applied at each reporting date in assessing the ongoing applicability of the going concern assumption and the current year's assessment of which has been included within the going concern section above.

#### **Trade and other receivables**

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

## Notes to the Financial Statements

### 1 Accounting policies continued

#### Non-derivative financial instruments continued

##### Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method less any impairment losses.

##### Interest rate risk

The Company finances its operations through cash. Cash resources are invested to attract the highest rates for periods that do not limit access to these resources.

##### Liquidity risk

With regard to liquidity, the Company's policy has throughout the year been to ensure that the Company is able at all times to meet its financial liabilities as and when they fall due. Cash flow forecasting is undertaken on a monthly basis approved and board level and managed on a daily basis by the finance function.

##### Exchange rate risk

As the Company evolves exchange rate fluctuations could have an adverse effect on the Company's profitability or the price competitiveness of its services. There can be no assurance that the Company would be able to compensate or hedge against such adverse effects and therefore negative exchange rate movements could have a material adverse effect on the Company's business, prospects and financial performance.

#### New standards, amendments and interpretations issued but not effective for the financial year beginning 1 June 2017 and not early adopted

The IASB and IFRIC have issued the following standards and interpretations with effective dates as noted below:

Standard	Key requirements	Effective date
IFRS 9, Financial Instruments	The standard is the first standard issued as part of a wider project to replace IAS 39. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The classification depends on the entity's business model and the contractual cash flow characteristics of the instrument. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.	1 January 2018
IFRS 15, Revenue from Contracts with Customers	The standard specifies how and when a company will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
IFRS 16, Leases	The standard requires lessees to recognise most leases on their balance sheets, regardless of the industry the entity operates within.	1 January 2019

The Directors are currently assessing the impact of the above standards on the financial performance of the Company however are unable to fully quantify the impact of the revised standards. There are no other IFRSs or IFRIC interpretations that are not yet fully effective that would be expected to have a material impact on the Company. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## Notes to the Financial Statements

### 2 Segment reporting

Due to the nature of the business the Company is currently focussed on building revenue streams from a variety of different markets. As there is only one manufacturing facility, and as this has capacity above and beyond the current levels of trade, there is no requirement to allocate resources to or discriminate between specific markets or products. As a result, the Company's chief operating decision maker, the Chief Executive, reviews performance information for the Company as a whole and does not allocate resources based on products or markets. In addition, all products manufactured by the Company are produced using similar processes. Having considered this information in conjunction with the requirements of IFRS 8, as at the reporting date the board of Directors have concluded that the Company has only one reportable segment that being the manufacture and sale of carbon fibre materials and the development of technologies associated with this.

The Company considers it offers product technology namely carbon fibre re-enforced ceramic material, which is machined into differing shapes depending on the intended purpose of the end user.

Revenue by geographical destination is analysed as follows:

	2017 £'000	2016 £'000
United Kingdom	322	199
Rest of Europe	189	835
United States of America	191	313
Rest of World	–	15
	<b>702</b>	<b>1,362</b>

### 3 Expenses and auditors remuneration

	2017 £'000	2016 £'000
<b>Operating loss is stated after charging</b>		
Profit on disposal of property plant and equipment	–	16
Depreciation of property, plant and equipment	139	111
Amortisation of intangible assets	6	–
Research costs expensed as incurred	1,916	1,254
Rents payable under operating leases – land and buildings	139	55
Exchange losses	15	2
<b>after crediting</b>		
Government grants	–	84

#### Auditor's remuneration

Amounts receivable by auditors and their associates in respect of:

	2017 £'000	2016 £'000
Audit of these financial statements	25	23
Tax advice	24	9

Grants received comprise revenue grants from the Technology Strategy Board.

These are subject to making expenditure as stipulated in the grant applications and to audit of the claims. There are no unfulfilled conditions or contingencies associated with government assistance received.

## Notes to the Financial Statements

### 4 Remuneration of Directors

The aggregate amount of emoluments paid to Directors in respect of qualifying services during the year was £227,366 (2016: £166,314).

The amounts set out above include remuneration in respect of the highest paid director of £163,183 (2016: £104,764).

Pension contributions of £9,424 (2016: £9,424) were made to a money purchase scheme on behalf of one director, no other pension contributions were accruing by any other Director during either the current or prior year.

### 5 Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2017	2016
Directors	4	4
Other employees	26	25
	30	29

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£'000	£'000
Wages and salaries	1,024	1,006
Social security costs	101	97
Other pension costs (see note 18)	24	21
Share based compensation	88	64
	1,237	1,188

### 6 Financial income

	2017	2016
	£'000	£'000
Total bank interest	5	2

### 7 Financial expenses

	2017	2016
	£'000	£'000
Total interest expense on financial liabilities measured at amortised cost	–	35

## Notes to the Financial Statements

### 8 Taxation

	2017 £'000	2016 £'000
Analysis of credit in year		
<b>UK corporation tax</b>		
Adjustment in respect of prior years – R&D tax allowances	(356)	(306)
Total income tax credit	(356)	(306)

Details of the unrecognised deferred tax asset are included in note 15.

#### Factors affecting the tax credit for the current period

The current tax credit for the year is higher than the standard rate of corporation tax in the UK of 19.00% (2016: 20.00%). The differences are explained below:

	2017 £'000	2016 £'000
<b>Reconciliation of effective tax rate</b>		
Loss for the year	(2,172)	(848)
Total income tax credit	(356)	(306)
Loss excluding income tax	(2,528)	(1,154)
Current tax at average rate of 19.83% (2016: 20.00%)	(501)	(231)
Effects of:		
Non-deductible expenses	19	13
Change in unrecognised timing differences	(3)	18
Current year losses for which no deferred tax recognised	485	200
Adjustment in respect of prior years – R&D tax allowances	(356)	(306)
Income tax credit (see above)	(356)	(306)

#### Factors that may affect future tax charges

As announced Corporation Tax, main rate for years starting 1 April 2017, 2018 and 2019 will be 19% with the government announcing a further reduction to Corporation Tax main rate for year starting 1 April 2020 at 17%.

## Notes to the Financial Statements

### 9 Property, plant and equipment

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Capital in progress £'000	Total £'000
<b>Cost</b>					
At 31 May 2015	75	858	65	–	998
Additions	10	231	24	–	265
Disposals	–	(38)	–	–	(38)
At 31 May 2016	85	1,051	89	–	1,225
Additions	124	426	259	1,145	1,954
Disposals	–	(32)	–	–	(32)
At 31 May 2017	<b>209</b>	<b>1,445</b>	<b>348</b>	<b>1,145</b>	<b>3,147</b>
<b>Depreciation</b>					
At 31 May 2015	59	394	62	–	515
Charge for year	7	99	5	–	111
Disposals	–	(28)	–	–	(28)
At 31 May 2016	66	465	67	–	598
Charge for year	9	108	22	–	139
Disposals	–	(5)	–	–	(5)
At 31 May 2017	<b>75</b>	<b>568</b>	<b>89</b>	<b>–</b>	<b>732</b>
<b>Net book value</b>					
At 31 May 2015	16	464	3	–	483
At 31 May 2016	19	586	22	–	627
At 31 May 2017	<b>134</b>	<b>877</b>	<b>259</b>	<b>1,145</b>	<b>2,415</b>

At 31 May 2017, the net carrying amount of leased plant and machinery was £6,493 (2016: £9,437). There was no impairment during the year (2016: £nil).

## Notes to the Financial Statements

### 10 Intangibles

	Software £'000	Total £'000
<b>Cost</b>		
At 31 May 2015	–	–
Additions	–	–
At 31 May 2016	–	–
Additions	142	142
Disposals	–	–
At 31 May 2017	<b>142</b>	<b>142</b>
<b>Depreciation</b>		
At 31 May 2015	–	–
Charge for year	–	–
Disposals	–	–
At 31 May 2016	–	–
Charge for year	6	6
Disposals	–	–
At 31 May 2017	<b>6</b>	<b>6</b>
<b>Net book value</b>		
At 31 May 2015	–	–
At 31 May 2016	–	–
At 31 May 2017	<b>136</b>	<b>136</b>

### 11 Inventories

	2017 £'000	2016 £'000
Raw materials and consumables	42	47
Work in progress	409	408
Finished goods	56	115
	<b>507</b>	<b>570</b>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £274,804 (2016: £607,009). There was no impairment during the year (2016: £nil).

### 12 Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	159	346
Other receivables	152	173
Prepayments and accrued income	54	420
	<b>365</b>	<b>939</b>

All receivables fall due within one year.

No debts were written off in the year (2016: £15,750).

## Notes to the Financial Statements

### 13 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 21.

	2017 £'000	2016 £'000
<b>Current liabilities</b>		
Finance lease liabilities	12	4
<b>Non-current liabilities</b>		
Government grants	352	16

Finance lease liabilities are payable as follows:

	Future minimum lease payments 2017 £'000	Interest 2017 £'000	Present value of minimum lease payments 2017 £'000	Future minimum lease payments 2016 £'000	Interest 2016 £'000	Present value of minimum lease payments 2016 £'000
Less than one year	12	–	12	5	1	4

### 14 Trade and other payables: amounts falling due within one year

	2017 £'000	2016 £'000
Trade payables	444	761
Taxation and social security	61	28
Accruals and deferred income	180	147
	<b>685</b>	<b>936</b>

### 15 Deferred tax

	2017 £'000	2016 £'000
Difference between accumulated depreciation and amortisation and capital allowances	(17)	5
Tax losses	(610)	(1,046)
Unrecognised deferred tax asset	(627)	(1,041)

The elements of the deferred taxation are as follows:

The Company has an unrecognised deferred tax asset at 31 May 2017 of £627,000 (2016: £1,041,000) relating principally to tax losses which the Company can offset against future taxable profits from the same trade.



## Notes to the Financial Statements

### 16 Called up share capital

	2017 £'000	2016 £'000
<b>Allotted, called up and fully paid</b>		
90,309,935 shares of £0.01 each (2016: 90,091,081 shares of £0.01 each)	903	901

During the year, 218,854 share options of £0.01 each were exercised for a consideration of £33,453. Further details of share options issued in the year can be found in note 24.

The Company operates a share incentive scheme for the benefit of the Directors and certain employees. All options are granted at the discretion of the Board. The scheme grants options to purchase ordinary shares of £0.01 each.

The options granted to Directors, date of grant and exercise price and exercise periods under the scheme are set out in the report on Directors' remuneration on pages 12 and 13. In addition to the Directors' share options, certain employees and former directors have been granted the following options:

Date of grant	Number of unexpired share options	Exercise price	Exercise period
30/06/2008	180,200	£0.18	30/06/11-30/06/18
22/09/2008	353,766	£0.19	22/09/11-22/09/18
01/02/2010	65,000	£0.09	01/03/13-01/03/20
15/02/2012	27,842	£0.12	15/03/15-15/03/22
25/09/2014	440,753	£0.105	25/09/17-25/09/24
30/09/2016	890,000	£0.145	25/09/18-25/09/25
	1,957,561		

There is a total of 1,484,355 unexpired options held by employees, 473,206 unexpired options held by former directors and a total of 2,594,707 unexpired options held by Directors.

### 17 Share premium and reserves

	Share premium account £'000	Capital reserve £'000	Retained loss £'000
At 31 May 2015	9,186	464	(8,983)
Retained loss for the year	–	–	(848)
Share issue (net of expenses)	5,173	–	–
Equity settled share based payment transactions	–	–	64
At 31 May 2016	14,359	464	(9,767)
Retained loss for the year	–	–	(2,172)
Share issue (net of expenses)	31	–	–
Equity settled share based payment transactions	–	–	88
<b>At 31 May 2017</b>	<b>14,390</b>	<b>464</b>	<b>(11,851)</b>

### 18 Pension scheme

The Company contributes to specific employees' personal pension schemes. The pension charge for the year represents contributions payable by the Company to the schemes and amounted to £24,496 (2016: £20,824). During the year one director and several senior managers opted to enter into salary exchange arrangements whereby they sacrificed salary for increased pension contributions. These arrangements accounted for £11,576 of the pension contributions (2016: £11,576).

There were outstanding contributions of £7,250 (2016: £12,055) at the end of the financial year.

## Notes to the Financial Statements

### 19 Related party disclosures

#### Transactions with key management personnel

Directors of the Company and their immediate relatives control 15.11% (2016; 15.09%) per cent of the voting shares of the Company. At present employees and Directors would hold 19.13% (2016; 18.14%) of the share capital, following the exercise of all outstanding share options.

The company considers key management personnel as defined in IAS 24 "Related party disclosures" to be the Directors of the company and key senior manager personnel and their remuneration is as follows:

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	439	436
Social security costs	45	45
Pension costs	23	19
Share based payments	72	58
	<b>579</b>	<b>558</b>
<b>Transactions in the year:</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Group 14 Limited</b>		
Interest paid	–	33
Fees paid	5	18
	<b>5</b>	<b>51</b>

Due to the presence of a common Board Director, Group 14 Limited is a related party to Surface Transforms Plc.

### 20 Loss per ordinary share

The calculation of basic loss per ordinary share is based on the loss for the financial year divided by the weighted average number of shares in issue during the year.

Losses and number of shares used in the calculations of loss per ordinary share are set out below:

<b>Basic</b>	<b>2017</b>	<b>2016</b>
Loss after tax (£)	<b>(2,172,135)</b>	(848,724)
Weighted average number of shares (No. of shares)	<b>90,145,921</b>	58,944,086
Loss per share (pence)	<b>(2.41p)</b>	(1.44p)

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share. This is because the exercise of options would have the effect of reducing the loss per ordinary share from continuing operations and is therefore anti-dilutive under the terms of IAS 33.

## Notes to the Financial Statements

### 21 Financial instruments

The Company's policies with regard to financial instruments are set out within note 1. The risks arising from the Company's financial assets and liabilities are set out below with the policies for their respective management.

#### Currency Risk

The Company transacts business in foreign currencies and therefore incurs some transaction risk.

The Company's exposure to foreign currency risk was as follows, this is based on the carrying amount for monetary financial instruments:

	31 May 2017			31 May 2016		
	US Dollar £'000	Euro £'000	Sterling £'000	US Dollar £'000	Euro £'000	Sterling £'000
Cash and cash equivalents	42	733	757	27	17	4,733
Trade receivables	2	(12)	169	42	3	301
Trade payables	(24)	(10)	(410)	(78)	(36)	(647)
Finance lease liabilities	–	–	(12)	–	–	(4)
Net exposure	20	711	504	(9)	(16)	4,383

	Average Rate		Reporting Date Spot Rate	
	2017	2016	2017	2016
US Dollar	1.280	1.508	1.284	1.462
Euro	1.174	1.368	1.146	1.296

#### Sensitivity Analysis

A ten percent strengthening of the pound against the US Dollar and the Euro at 31 May 2017 would have decreased profit by the amounts below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

	US Dollar £'000	Euro £'000
31 May 2017	(1)	(1)
31 May 2016	(1)	(1)

A ten percent weakening of the pound against the US Dollar and the Euro at 31 May 2017 would have an equal and opposite effect to the amounts shown above, on the basis all other variables remain constant.

#### Price Risk

The Company aims to minimise its exposure to supplier price increases and customer price decreases by offsetting reciprocal supplier and customer arrangements.

## Notes to the Financial Statements

### 21 Financial instruments continued

#### Credit Risk

The Company operates a closely monitored collection policy.

The ageing of trade receivables at the reporting date was:

	31 May 2017			31 May 2016		
	Gross £'000	Impairment £'000	Net £'000	Gross £'000	Impairment £'000	Net £'000
Not past due	70	–	70	309	–	309
Past due 0 to 30 days	18	–	18	(10)	–	(10)
Past due 31 to 90 days	71	–	71	63	(16)	47
	<b>159</b>	<b>–</b>	<b>159</b>	<b>362</b>	<b>(16)</b>	<b>346</b>

There was an amount of nil (2016: £15,570) in the allowance for impairment in respect of trade receivables.

The average debtor days are 42 days (2016: 97 days), the average creditor days are 210 days (2016: 185 days).

#### Liquidity Risk

The Company's objective is to maintain a balance between continuity and flexibility of funding through the use of short term deposits.

The contractual maturity of all cash and cash equivalents, trade and other receivables at the current and preceding balance sheet date is within one year.

The contractual maturity of trade and other payables at the current and preceding balance sheet date is within three months.

The contractual maturity of finance lease and loan liabilities can be found in note 13.

#### Interest Rate Risk

At the balance sheet date, the interest rate profile of the Company's interest-bearing financial instruments was:

	2017 £'000	2016 £'000
<b>Fixed rate instruments:</b>		
Finance lease liabilities	4	4

#### Fair values of the Company's financial assets and liabilities

The table below analyses the Company's financial instruments:

	2017 £'000	2016 £'000
<b>Financial assets:</b>		
Cash and cash equivalents	1,532	4,777
Trade and other receivables	365	939
Total financial assets	<b>1,897</b>	<b>5,716</b>
<b>Financial liabilities:</b>		
Trade and other payables	685	936
Government grants	352	–
Finance leases	12	4
Total financial liabilities	<b>1,049</b>	<b>940</b>

## Notes to the Financial Statements

### 21 Financial instruments continued

#### Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount, all cash and cash equivalents are repayable on demand.

#### Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

#### Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

#### Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern and satisfy its debt as it falls due whilst also maximising opportunities to progress the development of the business. The capital structure of the Company consists of cash and cash equivalents and equity attributable to shareholders comprising issued capital. The key indicator of capital management performance used by management is the level of cash and cash equivalents available to the Company.

### 22 Commitments

Non-cancellable operating lease rentals are payable as follows:

	<b>Land and buildings 2017 £'000</b>	<b>Land and buildings 2016 £'000</b>
Within one year	135	41
In the second to fifth years inclusive	575	–
	<b>710</b>	<b>41</b>

Capital commitments as at 31 May 2017 were £nil (2016: £nil).

### 23 Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party due to no individual party owning a majority share in the Company.

## Notes to the Financial Statements

### 24 Share based payments

#### Share Options

The number of options outstanding under the Company's share option scheme is as follows:

#### Number of Share Options – Ordinary Shares at 1p

Note	At 31 May 2016	Leaver	Exercised	Lapsed	At 31 May 2017	Exercise price	Date from which exercisable	Expiry date
(a)	280,000	–	(50,000)	(230,000)	–	£0.21	18/04/2010	18/04/2017
(b)	50,000	–	(50,000)	–	–	£0.21	18/04/2010	18/04/2017
(a)	468,200	–	–	–	468,200	£0.18	30/06/2011	30/06/2018
(a)	610,035	–	–	–	610,035	£0.18	22/09/2011	22/09/2018
(b)	225,438	–	–	–	225,438	£0.19	22/09/2011	22/09/2018
(a)	145,000	–	(45,000)	–	100,000	£0.09	01/03/2016	01/03/2020
(b)	345,000	–	–	–	345,000	£0.09	01/03/2016	01/03/2020
(b)	65,000	–	–	–	65,000	£0.09	17/10/2016	17/10/2021
(b)	100,000	–	–	–	100,000	£0.09	17/10/2016	17/10/2021
(b)	100,000	–	–	–	100,000	£0.09	17/10/2016	17/10/2021
(a)	106,696	–	(73,854)	–	32,842	£0.12	15/02/2016	15/03/2022
(b)	330,000	–	–	–	330,000	£0.12	15/02/2016	15/03/2022
(a)	440,753	–	–	–	440,753	£0.105	25/09/2017	25/09/2024
(a)	1,630,000	(145,000)	–	–	1,485,000	£0.145	30/09/2018	30/09/2025
(b)	250,000	–	–	–	250,000	£0.155	02/10/2018	02/10/2025
<b>Total</b>	<b>5,146,122</b>	<b>(145,000)</b>	<b>(218,854)</b>	<b>(230,000)</b>	<b>4,552,268</b>			

- (a) These options have been granted under the EMI approved scheme. There have been no variations to the terms and conditions or performance criteria attached to these share options during the financial year. There are no performance conditions attached to these shares other than continued employment by the Company.
- (b) These options have been granted under the unapproved scheme. There have been no variations to the terms and conditions or performance criteria attached to these share options during the financial year. There are no performance conditions attached to these shares other than continued employment by the Company.

There was no cost payable by the employees on the grant of any of the above options.

The option holder may only exercise their options during employment with the Company.

## Notes to the Financial Statements

### 24 Share based payments continued

The movements of the EMI and unapproved share options outstanding are shown below:

	EMI Scheme		Unapproved Scheme	
	Number of awards	Weighted average exercise price £	Number of awards	Weighted average exercise price £
Outstanding at 31 May 2015	2,050,684	0.135	1,250,438	0.12
Granted	1,880,000	0.146	–	–
Forfeited & surrendered	(35,000)	0.09	–	–
Outstanding at 31 May 2016	3,895,684	0.135	1,250,438	0.12
Lapsed	(180,000)	0.21	(50,000)	0.21
Leaver	(145,000)	0.145	–	–
Exercised	(218,854)	0.09	–	–
Outstanding at 31 May 2017	3,351,830	0.083	1,200,438	0.165
Range of exercise prices	9p to 21p		9p to 21p	

Weighted average remaining contractual life for the EMI Scheme is 8 years 4 months (2016: 9 years 4 months).

Weighted average remaining contractual life for the unapproved Scheme is 5 years 8 months (2016: 6 years 8 months).

There were 218,854 share options exercised during the year (2016 35,000).

A charge of £87,677 (2016: £64,204) has been made in the statement of comprehensive income to spread the fair value of the options over the 3 year service obligations of those incentives.

#### Assumptions used in the valuation of share based options

In calculating the fair value of the share based payment arrangements the Company has used the Black Scholes method.

Weighted average assumptions	2017	2016
Fair value per share option	–	9.1p
Share price on date of grant	–	14.5p
Exercise price	–	14.5p
Share options granted in the year – EMI scheme	–	1,880,000
Expected volatility	100%	100%
Exercise pattern (years)	3-10 years uniformly	3-10 years uniformly
Expected dividend yields	0%	0%
Risk free rate of return	2%	2%

The fair value of the share options is applied to the number of options that are expected to vest which considers the expected and actual forfeitures over the vesting period as a result of cessation of employment. Expected volatility was determined by assessing the Company's historic data and the market in which the Company operates.

### 25 Post balance sheet event

The Company successfully raised £3.68m (before fees) through equity placing and an open offer.



## Company Information and Advisers

<b>Website</b>	<a href="http://www.surfacetransforms.com">www.surfacetransforms.com</a>
<b>Registered Number</b>	03769702
<b>Directors</b>	<b>David George Bundred</b> (Non-executive Chairman) <b>Dr Kevin Johnson</b> (Chief Executive) <b>Kevin D'Silva</b> (Non-executive Director) <b>Richard Douglas Gledhill</b> (Non-executive Director)
<b>Company Secretary</b>	<b>David Charles Allen</b>
<b>Address</b>	Image Business Park Acornfield Road Liverpool L33 7UF Tel: 0151 356 2141
<b>Nominated Adviser and Joint Broker</b>	<b>Cantor Fitzgerald Europe</b> One Churchill Place Canary Wharf London E14 5RB
<b>Joint Broker</b>	<b>finnCap</b> 60 New Broad Street London EC2M 1JJ
<b>Auditors</b>	<b>RSM UK Audit LLP</b> 20 Chapel Street Liverpool L3 9AG
<b>Solicitors to the Company</b>	<b>Gateley LLP</b> Ship Canal House 98 King Street Manchester M3 4WU
<b>Bankers</b>	<b>NatWest</b> Chester Branch 33 Eastgate Street Chester CH1 1LG
<b>Registrars</b>	<b>Capita Asset Services</b> The Registry 34 Beckenham Road Kent BR3 4TU



## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the above named Company will be held at finnCap, 60 New Broad Street, London, EC2M 1JJ on Tuesday 28 November 2017 at 11.00am for the following purposes:

### Ordinary Business

1. To receive the annual accounts of the Company for the financial year ended 31 May 2017 together with the last Directors' report, the last Directors' remuneration report and the auditors' report on those accounts.
2. To re-elect Kevin Johnson, who retires by rotation pursuant to article 113 of the articles of association of the Company and who, being eligible, offers himself for re-election as a Director.
3. To re-appoint RSM UK Audit LLP as auditors for the Company to hold office from the conclusion of this meeting until the conclusion of the next annual general meeting of the Company and to authorise the Directors to fix their remuneration.

### Special Business

To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

4. "THAT, in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and they are hereby generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 (the "Act"):
  - to exercise all or any of the powers of the Company to allot shares of the Company or to grant rights to subscribe for, or to convert any security into, shares of the Company (such shares and rights being altogether referred to as "**Relevant Securities**") up to an aggregate nominal value of £301,003 to such persons at such times and generally on such terms and conditions as the Directors may determine (subject always to the articles of association of the Company); and further
  - to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £301,003 in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any territory,

PROVIDED THAT this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Directors of the Company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities or equity securities (as the case may be) to be allotted after the expiry of such period and the Directors of the Company may allot relevant securities or equity securities (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired."

## Notice of Annual General Meeting

5. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:
- "THAT, subject to and conditional upon the passing of the resolution numbered 4 in the notice convening the meeting at which this resolution was proposed and in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) pursuant to the authority conferred upon them by resolution 4 as if section 561 of the Act did not apply to any such allotment provided that this authority and power shall be limited to:
- (a) the allotment of equity securities in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors of the Company may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of any recognised regulatory body in any, territory; and
  - (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £90,310, representing approximately 10% of the current issued share capital of the Company,
- and shall expire at the conclusion of the next annual general meeting or on the date which is 6 months after the next accounting reference date of the Company (if earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired."

BY ORDER OF THE BOARD

**David C Allen**  
Company Secretary

Date: 18 September 2017

Registered office:  
Image Business Park  
Acornfield Road  
Liverpool L33 7UF

## Notice of Annual General Meeting

### Notes:

1. A member of the Company entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to exercise any of his rights to attend, speak and vote at that meeting on his behalf. If a member appoints more than one proxy, each proxy must be entitled to exercise the rights attached to different shares. A proxy need not be a member of the Company.
2. A proxy may only be appointed using the procedures set out in these notes and the notes to the proxy form. To appoint a proxy, a member may complete, sign and date the enclosed proxy form and deposit it at the Company's Registrars, Capita Asset Services at PXS, Beckenham, Kent BR3 4TU by 11.00am on 26 November 2017. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be enclosed with the proxy form.
3. In order to revoke a proxy appointment, a member must sign and date a notice clearly stating his intention to revoke his proxy appointment and deposit it at the Company's Registrars, Capita Asset Services at PXS, Beckenham, Kent BR3 4TU by 11.00am on 26 November 2017.
4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so in relation to the meeting, and any adjournment(s) of that meeting, by utilising the procedures described in the CREST Manual. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message must be transmitted so as to be received by the Company's Agent, Capita Asset Services at PXS, Beckenham, Kent BR3 4TU (CREST Participant ID:RA10) by no later than 48 hours before the time of the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
5. Any corporation which is a member of the Company may authorise one or more persons (who need not be a member of the Company) to attend, speak and vote at the meeting as the representative of that corporation.
6. The right to vote at the meeting shall be determined by reference to the register of members of the company. Only those persons whose names are entered on the register of members of the Company at entitlement time and date close of business on 26 November 2017 shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and/or vote at the meeting.

## Notice of Annual General Meeting

### Explanatory Notes:

#### **Resolution 4 – Directors' power to allot relevant securities**

Under section 551 of the Act, relevant securities may only be issued with the consent of the shareholders, unless the shareholders pass a resolution generally authorising the directors to issue shares without further reference to the shareholders. This resolution authorises the general issue of shares up to an aggregate nominal value of £301,003, which is equal to 33.33% of the nominal value of the current ordinary share capital of the Company and a further issue of shares up to an aggregate nominal value of £301,003, which is equal to a further 33.33% of the nominal value of the current share capital of the Company for the purposes of fully pre-emptive rights issues. Such authorities will expire at the conclusion of the next annual general meeting of the Company or the date which is 6 months after the next accounting reference date of the Company (whichever is the earlier).

#### **Resolution 5 – Disapplication of pre-emption rights on equity issues for cash**

Section 561 of the Act requires that a company issuing shares for cash must first offer them to existing shareholders following a statutory procedure which, in the case of a rights issue, may prove to be both costly and cumbersome. This resolution excludes that statutory procedure as far as rights issues are concerned. It also enables the directors to allot shares up to an aggregate nominal value of £90,310 which is equal to 10% of the nominal value of the current ordinary share capital of the Company, subject to resolution 5 (b) being passed. The directors believe that the limited powers provided by this resolution will maintain a desirable degree of flexibility. Unless previously revoked or varied, the disapplication will expire on the conclusion of the next annual general meeting of the Company or on the date which is 15 months after the resolution being passed (whichever is the earlier).



## Shareholder Notes



**Surface Transforms Plc**  
Image Business Park  
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